

SEC



11015104

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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER

8- 15433

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/10 AND ENDING 12/31/10
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATIONNAME OF BROKER-DEALER: **KMS FINANCIAL SERVICES, INC.**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

2001 SIXTH AVENUE, SUITE 2801

(No. and Street)

SEATTLEWA98121

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

KENNETH W. PAULSEN206-441-2885

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

HAGELIN & ASSOCIATES

(Name - if individual, state last, first, middle name)

2200 SIXTH AVENUE, SUITE 430SEATTLEWA98121

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

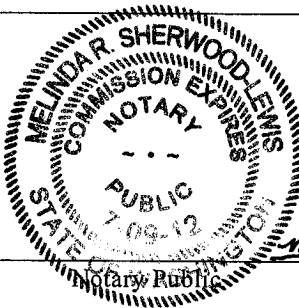
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

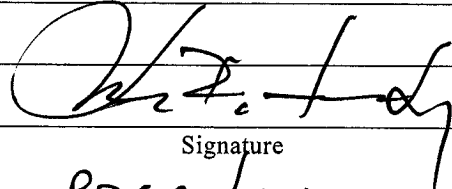
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OATH OR AFFIRMATION

I, MARK HAMBY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of KMS FINANCIAL SERVICES, INC., as of DECEMBER 31, 20 10, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

NONE




Signature
PRES / CEO
Title

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditors report on internal control structure.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

HAGELIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
2200 Sixth Avenue, Suite 430
Seattle, WA 98121-1845

(206) 441-7100
FAX (206) 441-5804

INDEPENDENT AUDITOR'S REPORT

Board of Directors
KMS Financial Services, Inc.

We have audited the accompanying statement of financial condition of KMS Financial Services, Inc. as of December 31, 2010, and the related statements of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KMS Financial Services, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with United States of America generally accepted accounting principles.

Hagelin & Associates

Seattle, Washington

February 9, 2011

KMS FINANCIAL SERVICES, INC.
STATEMENT OF FINANCIAL CONDITION
December 31, 2010

ASSETS

Cash and cash equivalents	\$4,951,470
Commissions receivable, net of allowance for doubtful accounts	2,574,094
Investments in common stocks and U.S. Treasury Notes, at market value	1,201,795
Prepaid expenses and other receivables	142,235
Advances to registered representatives	104,424
Deposits with clearing organizations	140,000
Office equipment and fine art at cost, net of accumulated depreciation of \$703,973	133,059
Deferred Federal income tax asset	260,000
	<u>\$9,507,077</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	\$ 426,383
Commissions payable	2,116,335
Profit sharing contribution payable	651,595
Accrued expenses	360,603
Federal and state income taxes currently payable	6,560
Supplemental retirement payable	731,181
Note payable	1,172,522
	<u>5,465,179</u>
Commitments and contingent liabilities	
Stockholders' equity:	
Common stock - no par value:	
Authorized - 50,000 shares, issued and outstanding - 7,565 shares	147,309
Retained earnings	3,894,589
	<u>4,041,898</u>
	<u>\$9,507,077</u>

See notes to financial statements.

KMS FINANCIAL SERVICES, INC.
STATEMENT OF INCOME
For the year ended December 31, 2010

REVENUES

Commissions	\$57,396,632
Interest income	52,048
Other income	2,506,200
Total revenues	<u>59,954,880</u>

EXPENSES

Commission expense	52,320,553
Salaries	2,768,776
Supplemental executive retirement	120,213
Payroll taxes	240,340
Employee benefits	254,745
Profit sharing plan expense	651,595
 Rent	 200,204
Promotion, entertainment and sales expense	82,152
Office expenses	93,389
Telephone	11,297
Research and sundry	1,142,055
 Data processing	 92,110
Repairs and maintenance	17,555
Professional fees	572,012
Business taxes	210,096
Registration fees and expenses	282,389
 Insurance	 4,275
Interest	53,989
Dues and subscriptions	5,929
Miscellaneous	108,824
Depreciation and amortization	31,956
Total expenses	<u>59,264,454</u>

INCOME BEFORE INCOME TAXES 690,426

PROVISION FOR INCOME TAXES 289,376

NET INCOME \$ 401,050

See notes to financial statements.

KMS FINANCIAL SERVICES, INC.
STATEMENT OF STOCKHOLDERS' EQUITY
For the year ended December 31, 2010

	<u>Common Stock</u>		<u>Retained</u>
	<u>Shares</u>	<u>Dollars</u>	<u>Earnings</u>
Balance - December 31, 2009	8,169	\$159,063	\$4,189,736
(Redemption) and cancellation of common shares	(604)	(11,754)	(696,197)
Net income for the year			<u>401,050</u>
Balance - December 31, 2010	<u>7,565</u>	<u>\$147,309</u>	<u>\$3,894,589</u>

See notes to financial statements.

KMS FINANCIAL SERVICES, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2010
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$401,050
Adjustment to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	31,956
(Increase) decrease in:	
Commissions receivable	(498,371)
Investments	151,978
Prepaid expenses and other receivables	23,852
Advances to registered representatives	15,772
Deferred Federal income tax asset	(10,000)
Increase (decrease) in:	
Accounts payable	10,766
Commissions payable	352,778
Profit sharing contribution payable	15,700
Accrued expenses	64,231
Supplemental retirement payable	60,213
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>619,925</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of office equipment and fine art	(27,062)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES	<u>(27,062)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Note payable principal payment	(390,841)
Redemption and cancellation of shares	(707,951)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES	<u>(1,098,792)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(505,929)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,457,399</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$4,951,470</u>

See notes to financial statements.

KMS FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY - The Company is a Financial Industry Regulatory Authority Registered Broker and Dealer, Securities and Exchange Commission registered investment advisor, and insurance general agent offering securities, investment advisory services and insurance products through independent contractor agents (registered representatives and investment advisory representatives) operating primarily in the Western United States. Commission revenues are generated predominantly from the sale of mutual fund shares, general securities and variable annuities. Investment advisory revenues are generated primarily through offering investment advisory services based on a percentage of assets under advisory contracts.

INCOME RECOGNITION - Securities transactions and the commission revenue and expense are recorded in the accounts on a trade date basis. Investment advisory fees are received quarterly but are generally recognized as earned on a pro rata basis over the term of the agreement.

INCOME TAXES - Deferred Federal income taxes are provided when income, related to carrying investments at market value, and expenses, principally supplemental executive retirement program expenses accrued for financial statement purposes not deductible for tax purposes until paid, are recognized in different years for tax and financial statement purposes. Deferred tax expenses or benefits are recognized in the financial statements for the changes in the deferred tax liabilities or assets between years. No valuation allowances have been recorded to offset deferred tax assets recorded by the Company.

FIXED ASSETS AND DEPRECIATION - Office equipment and fine art are stated at cost. Office equipment is depreciated over its estimated economic life, ranging from three to seven years and is computed on the straight-line and accelerated methods. Fine art is depreciated on the straight-line method over its estimated economic lives of twenty to fifty years.

INVESTMENTS - Investments in common stocks, mutual funds and U.S. Treasury Notes are carried at fair market value based upon quoted market prices.

ESTIMATES AND ASSUMPTIONS - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

KMS FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
(continued)

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS - The carrying value of cash, receivables and accounts payable approximate fair value due to the short maturity of these instruments. None of the financial instruments are held for trading purposes.

2. CASH AND CASH EQUIVALENTS

The Company considers cash and cash equivalents to include cash and those short-term, highly liquid investments with original maturities of three months or less.

Cash and cash equivalents at December 31, 2010 consist of the following:

General funds	\$2,670,179
Cash segregated in compliance with Federal and other regulations	138,779
Cash segregated in compliance with agreements with registered representatives (Note 6)	422,550
Investments in money market funds	<u>1,719,962</u>
	<u>\$4,951,470</u>

Supplemental disclosures for the statement of cash flows include cash paid during the year for:

Interest	\$ 41,531
Income taxes (Note 7)	\$261,988

3. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2010, the Company had net capital of \$2,867,592 and net capital required under the Rule was \$364,345. The aggregate indebtedness to net capital ratio was 1.91 to 1.

The net capital rules may effectively restrict the payment of cash dividends.

KMS FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
(continued)

4. SUPPLEMENTAL EXECUTIVE RETIREMENT PROGRAM

The Company maintains a supplemental executive retirement program covering an employee that provided for monthly benefits of \$5,000 commencing in 1998. The Company's policy is to not fund the liability. The unfunded accumulated benefit obligation is reflected in the accompanying financial statements as supplemental retirement payable.

5. NOTE PAYABLE

Promissory note payable to a former stockholder is payable \$390,841 annually plus interest at prime plus one percent, not to be less than 4.25 percent nor more than 6.25 percent. Prime was 3.25 percent at December 31.

Estimated principal payments on the note are due for the years ending December 31, as follows:

2011	\$ 390,841
2012	390,841
2013	<u>390,840</u>
	<u>\$1,172,522</u>

6. COMMITMENTS

The Company leases office premises and equipment under noncancelable operating leases. The Company is obligated under an equipment lease for rental payments covering office supplies provided under the operating lease. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2010:

<u>Year ending December 31,</u>	
2011	\$179,100
2012	176,556
2013	181,848
2014	<u>140,517</u>
Total minimum payments required	<u>\$678,021</u>

The Company's rental expense, under operating leases, was \$200,204 during 2010.

The Company has received payments from registered representatives, and maintains the funds to supplement professional liability insurance programs as necessary. The Company, and appointed registered representatives are responsible for administration of funds.

KMS FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
(continued)

6. COMMITMENTS (continued)

The Company is obligated to purchase, from certain stockholder's estates, the estate's common stock at a purchase price per share determined by formula. Additionally, the Company is obligated to purchase shares from certain terminated employees.

The Company maintains life insurance on certain stockholders. Proceeds from these life insurance policies are to be used to redeem common stock from the estate, with balances generally payable over five years at prime rates plus one percent.

7. INCOME TAXES

The Company's deferred taxes consist of the following:

Deferred tax assets	\$260,000
Deferred tax liabilities	-
Valuation allowance	-
	<u>\$260,000</u>

The Company's provision for income taxes consists of the following components:

Currently payable:	
Federal	\$276,069
State	23,307
Deferred tax (benefit):	
Federal	<u>(10,000)</u>
	<u>\$289,376</u>

The Company's deferred Federal tax asset represents the tax effects of deductible temporary differences in reporting compensation and retirement benefits under terms of the supplemental executive retirement program covering an officer, and certain accrued expenses not deductible for income tax purposes until paid.

The Company's deferred Federal income tax payable represent the tax effects of taxable temporary differences in carrying investments in common stocks and U.S. Treasury Notes at fair market value for financial presentation purposes. The net deferred Federal income tax asset includes the asset, net of the payable.

The Company's provision for income taxes differs from applying the statutory U.S. Federal income tax rate to income before income taxes. The primary differences arise from providing for state income taxes, and nontaxable municipal interest income.

KMS FINANCIAL SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
(continued)

8. EMPLOYEE PENSION AND PROFIT SHARING PLAN

The Company's employees are participants in a pension and profit sharing plan revised effective January 1, 2002. The plan covers substantially all of the Company's employees.

The plan is a 401(k) plan where the employees may elect to make voluntary contributions pursuant to a salary reduction agreement. The Company is obligated for minimum contributions, and may elect to make additional discretionary contributions determined by the Board of Directors. Contributions cannot exceed twenty five percent of compensation. Contributions of \$651,595 (including \$81,899 of required minimum contributions) were authorized by the Board of Directors for 2010. The Company is obligated for contributions to the pension plan of three percent of eligible compensation, as defined, on an annual basis. The Company funds plan contributions as incurred.

9. CONTINGENT LIABILITIES

The Company maintains its cash accounts in one commercial bank located in Seattle, Washington. The total cash balances are secured by the Federal Deposit Insurance Corporation up to \$250,000. Additionally, most of the Company's balances in money market funds were covered at year end by the U.S. Treasury Department's emergency insurance program for such funds implemented in the fourth quarter of 2009. That program may or may not be extended, and the Company may or may not choose to maintain those balances in money market funds to which any such coverage would apply.

The Company is involved in various legal actions and claims arising in the normal course of business. After taking into consideration legal counsel's evaluation of such actions, management is of the opinion that their outcome will not result in any material adverse effect on the Company's financial position.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 9, 2011, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

HAGELIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
2200 Sixth Avenue, Suite 430
Seattle, WA 98121-1845

(206) 441-7100
FAX (206) 441-5804

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION REQUIRED BY RULE 17a-5 OF THE
SECURITIES AND EXCHANGE COMMISSION

Board of Directors
KMS Financial Services, Inc.

We have audited the accompanying financial statements of KMS Financial Services, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated February 9, 2011. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in pages 15 - 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the United States of America auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hagelin & Associates

Seattle, Washington

February 9, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00

Form
X-17A-5

FOCUS REPORT
(Financial and Operational Combined Uniform Single Report)
PART IIA 12

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):			
1) Rule 17a-5(a) 16	2) Rule 17a-5(b) 17	3) Rule 17a-11 18	
4) Special request by designated examining authority 19	5) Other 26	Rule 17a-5(d)	
NAME OF BROKER-DEALER		SEC FILE NO.	
KMS FINANCIAL SERVICES, INC.		8-15433 14	
ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)		FIRM I.D. NO.	
2001 SIXTH AVENUE, SUITE 2801		01-03866 15	
(No. and Street)		FOR PERIOD BEGINNING (MM/DD/YY)	
SEATTLE		01/01/10 24	
21	WA	AND ENDING (MM/DD/YY)	
22	98121	12/31/10 25	
(City)	(State)	(Zip Code)	
NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT		(Area Code) — Telephone No.	
KENNETH W. PAULSEN		(206) 441-2885 31	
NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:		OFFICIAL USE	
32		33	
34		35	
36		37	
38		39	

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS? YES 40 NO 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT 42

EXECUTION:

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 9TH day of FEBRUARY 20 11

Manual signatures of:

1) 
Principal Executive Officer or Managing Partner

2) 
Principal Financial Officer or Partner

3) 
Principal Operations Officer or Partner

ATTENTION — Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78:f(a))

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

NAME (If individual, state last, first, middle name)

HAGELIN & ASSOCIATES

70

ADDRESS

2200 SIXTH AVENUE, SUITE 430

71

SEATTLE

72

WA

73

98121

74

Number and Street

City

State

Zip Code

CHECK ONE

☒ Certified Public Accountant

75

☐ Public Accountant

76

☐ Accountant not resident in United States
or any of its possessions

77

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50	51	52	53				

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER

KMS FINANCIAL SERVICES, INC.

N 3

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STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

as of (MM/DD/YY) 12/31/10

SEC FILE NO. 8-15433

Consolidated

Unconsolidated

99

98

198

199

	Allowable	Non-Allowable	Total
1. Cash	\$ 3,127,242 200	\$ 3,127,242 750	
2. Receivables from brokers or dealers:			
A. Clearance account	295		
B. Other	2,116,335 300	\$ 457,759 550	2,574,094 810
3. Receivable from non-customers	355	184,260 600	184,260 830
4. Securities and spot commodities owned at market value:			
A. Exempted securities	418		
B. Debt securities	2,978,435 419		
C. Options	420		
D. Other securities	47,590 424		
E. Spot commodities	430		3,026,025 850
5. Securities and/or other investments not readily marketable:			
A. At cost \$	130		
B. At estimated fair value	440	54,103 610	54,103 860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:			
A. Exempted securities \$	150		
B. Other securities \$	160		
7. Secured demand notes: Market value of collateral:			
A. Exempted securities \$	170		
B. Other securities \$	180		
8. Memberships in exchanges:			
A. Owned, at market \$	190		
B. Owned, at cost		650	
C. Contributed for use of the company, at market value		660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships	480	670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization	490	133,059 680	133,059 920
11. Other assets	140,000 535	268,294 735	408,294 930
12. TOTAL ASSETS	\$ 8,409,602 540	\$ 1,097,475 740	\$ 9,507,077 940

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER **KMS FINANCIAL SERVICES, INC.**

as of 12/31/10

STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

LIABILITIES AND OWNERSHIP EQUITY

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable	\$ 1045	\$ 1255 ¹³	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account	1114	1315	1560
B. Other	2,116,335 ¹⁰ 1115	1305	2,116,335 1540
15. Payable to non-customers	1155	1355	1610
16. Securities sold not yet purchased, at market value		1360	1620
17. Accounts payable, accrued liabilities, expenses and other	2,176,322 1205	1385	2,176,322 1685
18. Notes and mortgages payable:			
A. Unsecured	1,172,522 1210		1,172,522 1690
B. Secured	1211 ¹²	1390 ¹⁴	1700
19. E. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:		1400	1710
1. from outsiders ⁹ \$ 970			
2. includes equity subordination (15c3-1(d)) of ... \$ 980			
B. Securities borrowings, at market value		1410	1720
from outsiders \$ 990			
C. Pursuant to secured demand note collateral agreements		1420	1730
1. from outsiders \$ 1000			
2. includes equity subordination (15c3-1(d)) of ... \$ 1010			
D. Exchange memberships contributed for use of company, at market value		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes	1220	1440	1750
20. TOTAL LIABILITIES	\$ 5,465,179 1230	\$ 1450	\$ 5,465,179 1760
<u>Ownership Equity</u>			
21. Sole Proprietorship		15 ¹⁵ \$	1770
22. Partnership (limited partners)	11 ¹¹ (\$ 1020)		1780
23. Corporation:			
A. Preferred stock			1791
B. Common stock		147,309	1792
C. Additional paid-in capital			1793
D. Retained earnings		3,894,589	1794
E. Total		4,041,898	1795
F. Less capital stock in treasury		16 ¹⁶ ()	1796
24. TOTAL OWNERSHIP EQUITY		\$ 4,041,898	1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY		\$ 9,507,077	1810

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER **KMS FINANCIAL SERVICES, INC.**

as of 12/31/10

COMPUTATION OF NET CAPITAL

1. Total ownership equity from Statement of Financial Condition	\$	4,041,898	3480
2. Deduct ownership equity not allowable for Net Capital	19	()	3490
3. Total ownership equity qualified for Net Capital		4,041,898	3500
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital			3520
B. Other (deductions) or allowable credits (List)			3525
5. Total capital and allowable subordinated liabilities	\$	4,041,898	3530
6. Deductions and/or charges:			
A. Total non-allowable assets from			
Statement of Financial Condition (Notes B and C)	17	\$ 1,097,475	3540
B. Secured demand note delinquency			3590
C. Commodity futures contracts and spot commodities –			
proprietary capital charges			3600
D. Other deductions and/or charges			3610
7. Other additions and/or allowable credits (List)		(1,097,475)	3620
8. Net capital before haircuts on securities positions	20	\$ 2,944,423	3630
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1(f)):			
A. Contractual securities commitments		\$	3660
B. Subordinated securities borrowings			3670
C. Trading and investment securities:			
1. Exempted securities	18		3735
2. Debt securities		62,576	3733
3. Options			3730
4. Other securities		7,140	3734
D. Undue Concentration		7,115	3650
E. Other (List)			3736
		(76,831)	3740
10. Net Capital	\$	2,867,592	3750

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER **KMS FINANCIAL SERVICES, INC.**

as of 12/31/10

COMPUTATION OF NET CAPITAL REQUIREMENT

Part A

11. Minimum net capital required (6 $\frac{2}{3}$ % of line 19)	\$	364,345	3756
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	250,000	3758
13. Net capital requirement (greater of line 11 or 12)	\$	364,345	3760
14. Excess net capital (line 10 less 13)	\$	2,503,247	3770
15. Excess net capital at 1000% (line 10 less 10% of line 19)	\$	2,321,074	3780

COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.I. liabilities from Statement of Financial Condition	\$	5,465,179	3790
17. Add:			
A. Drafts for immediate credit	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited	\$	3810	
C. Other unrecorded amounts (List)	\$	3820	
18. Total aggregate indebtedness	\$	5,465,179	3840
19. Percentage of aggregate indebtedness to net capital (line 18 ÷ by line 10)	%	190.58%	3850
20. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	%	N/A	3860

COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

Part B

21. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits	\$	N/A	3970
22. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A)	\$	3880	
23. Net capital requirement (greater of line 21 or 22)	\$	3760	
24. Excess capital (line 10 less 23)	\$	3910	
25. Net capital in excess of the greater of:			
A. 5% of combined aggregate debit items or \$120,000	\$	3920	

NOTES:

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
 2. 6 $\frac{2}{3}$ % of aggregate indebtedness or 4% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER **KMS FINANCIAL SERVICES, INC.**

For the period (MMDDYY) from 01/01/10 3932 to 12/31/10 3933
 Number of months included in this statement 12 3931

STATEMENT OF INCOME (LOSS)

REVENUE

1. Commissions:			
a. Commissions on transactions in exchange listed equity securities executed on an exchange	\$	2,351,400	3935
b. Commissions on listed option transactions	25		3938
c. All other securities commissions		14,146,802	3939
d. Total securities commissions			3940
2. Gains or losses on firm securities trading accounts			
a. From market making in options on a national securities exchange			3945
b. From all other trading			3949
c. Total gain (loss)			3950
3. Gains or losses on firm securities investment accounts		9,531	3952
4. Profit (loss) from underwriting and selling groups	26		3955
5. Revenue from sale of investment company shares		19,559,442	3970
6. Commodities revenue			3990
7. Fees for account supervision, investment advisory and administrative services		21,254,550	3975
8. Other revenue		2,633,155	3995
9. Total revenue	\$	59,954,880	4030

EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers		1,964,951	4120
11. Other employee compensation and benefits		2,045,154	4115
12. Commissions paid to other broker-dealers			4140
13. Interest expense		53,989	4075
a. Includes interest on accounts subject to subordination agreements		4070	
14. Regulatory fees and expenses		216,496	4195
15. Other expenses		55,007,171	4100
16. Total expenses	\$	59,287,761	4200

NET INCOME

17. Income (loss) before Federal income taxes and items below (Item 9 less Item 16)	\$	667,119	4210
18. Provision for Federal income taxes (for parent only)	28	266,069	4220
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above			4222
a. After Federal income taxes of		4338	
20. Extraordinary gains (losses)			4224
a. After Federal income taxes of		4239	
21. Cumulative effect of changes in accounting principles			4225
22. Net income (loss) after Federal income taxes and extraordinary items	\$	401,050	4230

MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items	\$	N/A	4211
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FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER KMS FINANCIAL SERVICES, INC.

For the period (MMDDYY) from 01/01/10 to 12/31/10

STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period	\$	4,348,799	4240
A. Net income (loss)		401,050	4250
B. Additions (Includes non-conforming capital of	\$	4262	4260
C. Deductions (Includes non-conforming capital of	\$	4272	4270
2. Balance, end of period (From item 1800)	\$	4,041,898	4290

STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period	\$	N/A	4300
A. Increases			4310
B. Decreases			4320
4. Balance, end of period (From item 3520)	\$		4330

OMIT PENNIES

FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

PART IIA

BROKER OR DEALER **KMS FINANCIAL SERVICES, INC.**

as of 12/31/10

EXEMPTIVE PROVISION UNDER RULE 15c3-3

24. If an exemption from Rule 15c3-1 is claimed, identify below the section upon which such exemption is based (check one only)

- | | | |
|--|-------------------------------------|------|
| A. (k)(1) — \$2,500 capital category as per Rule 15c3-1 | <input type="checkbox"/> | 4550 |
| B. (k)(2)(A) — "Special Account for the Exclusive Benefit of customers" maintained | <input type="checkbox"/> | 4560 |
| C. (k)(2)(B) — All customer transactions cleared through another broker-dealer on a fully disclosed basis. | | |
| Name of clearing firm ³⁰ <u>PERSHING LLC - CLEARING FIRM SEC # 8-17574</u> | <input type="checkbox"/> | 4570 |
| <u>X</u> | <input checked="" type="checkbox"/> | 4580 |
| D. (k)(3) — Exempted by order of the Commission (include copy of letter) | <input type="checkbox"/> | 4590 |

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed Withdrawal or Accrual (See below for code)	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (Yes or No)
31 <input type="checkbox"/> 4600		4601	4602	4603	4604 4605
32 <input type="checkbox"/> 4610		4611	4612	4613	4614 4615
33 <input type="checkbox"/> 4620		4621	4622	4623	4624 4625
34 <input type="checkbox"/> 4630		4631	4632	4633	4634 4635
35 <input type="checkbox"/> 4640		4641	4642	4643	4644 4645
			Total \$ ³⁶ <u>N/A</u>	4699	

OMIT PENNIES

Instructions: Detail Listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and anticipated accruals which would cause a reduction of Net Capital. These anticipated accruals would include amounts of bonuses, partners' drawing accounts, taxes, and interest on capital, voluntary contributions to pension or profit sharing plans, etc., which have not been deducted in the computation of Net Capital, but which you anticipate will be paid within the next six months.

WITHDRAWAL CODE:	DESCRIPTIONS
1.	Equity Capital
2.	Subordinated Liabilities
3.	Accruals

KMS FINANCIAL SERVICES, INC.
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
December 31, 2010

NET CAPITAL

Total stockholder's equity qualified for net capital	\$4,041,898
Deductions and/or charges:	
A. Non-allowable assets	
Property, furniture, equipment and leasehold improvements (net of accumulated depreciation)	\$133,059
Receivable from brokers or dealers, other	457,759
Investments not readily marketable	54,103
Other receivables and prepaid expenses	268,294
Advances to registered representatives	<u>184,260</u>
	1,097,475
Net capital before haircuts on securities positions	<u>2,944,423</u>
Haircuts on securities (computed, where applicable, pursuant to Rule 15c3-1(f)):	
C. Trading and investment securities	
2. Debt securities	62,576
4. Other securities	7,140
D. Undue Concentration	<u>7,115</u>
Net capital	<u><u>\$2,867,592</u></u>

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition	
Accounts payable	426,383
Accrued expenses and other liabilities	1,018,758
Commissions payable	2,116,335
Deferred retirement payable	731,181
Note payable	<u>1,172,522</u>
Total aggregate indebtedness	<u><u>\$5,465,179</u></u>

COMPUTATION OF BASIS NET CAPITAL REQUIREMENT

Minimum net capital required	<u>\$364,345</u>
Minimum dollar net capital required of reporting broker or dealer	<u>\$250,000</u>
Excess net capital	<u>\$2,503,247</u>
Excess net capital at 1000%	<u>\$2,321,074</u>
Ratio: Aggregate indebtedness to net capital	<u>190.58%</u>

KMS FINANCIAL SERVICES, INC.
COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1 OF THE
SECURITIES AND EXCHANGE COMMISSION
(Continued)
December 31, 2010

RECONCILIATION WITH COMPANY'S COMPUTATION

(included in Part IIA of Form X-17A-5 as
of December 31, 2010)

Net capital, as reported in Company's Part IIA (Unaudited) FOCUS report	\$2,888,447
Audit adjustments increasing (decreasing) assets	
Commissions receivable	194,000
Deferred Federal income tax asset	10,000
Audit adjustments (increasing) nonallowable assets	(30,000)
Audit adjustments decreasing (increasing) A.I. Liabilities	
Trade accounts payable	(17,251)
Commissions payable	(174,000)
Accrued expenses and other liabilities	3,025
Audit adjustments decreasing Haircuts on debt instruments	486
Audit adjustments (increasing) Haircuts on Undue Concentration	(7,115)
Net capital as computed per this schedule	<u>\$2,867,592</u>

HAGELIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
2200 Sixth Avenue, Suite 430
Seattle, WA 98121-1845

(206) 441-7100
FAX (206) 441-5804

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY RULE 17a-5 OF THE
SECURITIES AND EXCHANGE COMMISSION

Board of Directors
KMS Financial Services, Inc.

We have audited the financial statements of KMS Financial Services, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated February 9, 2011. In planning and performing our audit of the financial statements and supplemental schedules of KMS Financial Services, Inc. for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by KMS Financial Services, Inc. that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the procedures for determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY RULE 17a-5 OF THE
SECURITIES AND EXCHANGE COMMISSION

(Continued)

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL REQUIRED BY RULE 17a-5 OF THE
SECURITIES AND EXCHANGE COMMISSION

(Continued)

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2010, to meet the Commission's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the Securities and Exchange Commission, the Financial Industry Regulatory Authority and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Hagellin & Associates

Seattle, Washington

February 9, 2011

HAGELIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS
2200 Sixth Avenue, Suite 430
Seattle, WA 98121-1845

(206) 441-7100
FAX (206) 441-5804

INDEPENDENT AUDITOR'S REPORT ON
THE SIPC ANNUAL ASSESSMENT REQUIRED BY RULE 17a-5
OF THE SECURITIES AND EXCHANGE COMMISSION

Board of Directors
KMS Financial Services, Inc.

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments (Transitional Assessment Reconciliation Form SIPC-7T) to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2010, which were agreed to by KMS Financial Services, Inc. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC, solely to assist you and the other specified parties in evaluating KMS Financial Services, Inc.'s compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). KMS Financial Services, Inc.'s management is responsible for the KMS Financial Services, Inc.'s compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC- 7 with respective cash disbursement records entries noting no differences,
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2010, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2010, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;

INDEPENDENT AUDITOR'S REPORT ON
THE SIPC ANNUAL ASSESSMENT REQUIRED BY RULE 17a-5
OF THE SECURITIES AND EXCHANGE COMMISSION

(Continued)

4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Hagelin & Associates

Seattle, Washington

February 9, 2011

SIPC-7

(31-REV 5/10)

SECURITIES INVESTOR PROTECTION CORPORATION
P.O. Box 92185 Washington, D.C. 20090-2185
202-371-8300

General Assessment Reconciliation**SIPC-7**

(31-REV 5/10)

For the fiscal year ended 12/31, 20 10
(Read carefully the instructions in your Working Copy before completing this Form)

TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

KMS FINANCIAL SERVICES, INC.

2001 SIXTH AVENUE, SUITE 2801

SEATTLE, WA 98121-2588

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

KENNETH W. PAULSEN (206) 441-2885

2. A. General Assessment [item 2e from page 2 (not less than \$150 minimum)] \$ 65,895
- B. Less payment made with SIPC-6 filed (exclude interest) (65,893)
- _____ Date Paid
- C. Less prior overpayment applied (_____)
- D. Assessment balance due or (overpayment) _____ 2
- E. Interest computed on late payment (see instruction E) for _____ days at 20% per annum _____
- F. Total assessment balance and interest due (or overpayment carried forward) \$ _____ 2
- G. PAID WITH THIS FORM:
Check enclosed, payable to SIPC
Total (must be same as F above) \$ _____ 2
- H. Overpayment carried forward \$(_____)

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

KMS FINANCIAL SERVICES, INC.

(Name of Corporation, Partnership or other organization)

(Authorized Signature)

CFO

(Title)

Dated the 23 day of FEBRUARY, 20 11.

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

SIPC REVIEWER

Dates: _____
Postmarked _____ Received _____ Reviewed _____

Calculations _____ Documentation _____ Forward Copy _____

Exceptions: _____

Disposition of exceptions: _____

DETERMINATION OF "SIPC NET OPERATING REVENUES" AND GENERAL ASSESSMENT

Amounts for the fiscal period
beginning 01/01, 2010
and ending 12/31, 2010
Eliminate cents

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

\$ 59,954,880

2b. Additions:

(1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.

(2) Net loss from principal transactions in securities in trading accounts.

(3) Net loss from principal transactions in commodities in trading accounts.

(4) Interest and dividend expense deducted in determining item 2a.

(5) Net loss from management of or participation in the underwriting or distribution of securities.

(6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.

(7) Net loss from securities in investment accounts.

Total additions

2c. Deductions:

(1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.

33,241,510

(2) Revenues from commodity transactions.

(3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.

(4) Reimbursements for postage in connection with proxy solicitation.

(5) Net gain from securities in investment accounts.

9,531

(6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.

(7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).

(8) Other revenue not related either directly or indirectly to the securities business.
(See Instruction C):

EXPENSE REIMBURSEMENT DOLLAR FOR DOLLAR

345,746

(9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income.

\$ _____

(ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960).

\$ _____

Enter the greater of line (i) or (ii)

Total deductions

33,596,787

2d. SIPC Net Operating Revenues

\$ 26,358,093

2e. General Assessment @ .0025

\$ 65,895

(to page 1 but not less than
\$150 minimum)